



2005 TOURISM OUTLOOK

BUILDING TOURISM WITH INSIGHT

February 2005

The 2005 *Tourism Outlook* presents Tourism British Columbia's initial forecast of market performance for the coming year. Surveys of household travel intentions and motivations, mid-range projections of economic conditions and forward-looking indicators of business activity were all utilized in the development of this forecast.

Overall visitation to British Columbia is forecast to increase 2.3% during 2005 to nearly 23.0 million overnight visitors, generating expenditures of almost \$9.9 billion in the province. Overseas markets will grow more rapidly than North American markets as overseas air seat capacity rises, travel from the Asia/Pacific region continues to rebound from the impact of Severe Acute Respiratory Syndrome (SARS) and as Europeans take advantage of the strengthened Euro. The growth in business travel during 2004 is expected to continue through 2005. Increased marketing funds will also be a positive factor, but should have more of an impact in 2006 and onwards.

Overnight visitor volume grew 2.2% during 2004 as overseas markets rebounded more rapidly than expected from the confluence of events which negatively impacted travel to British Columbia during 2003. These events included the onset of the war in Iraq, SARS, Bovine Spongiform Encephalopathy (BSE) and forest fires in the interior of the province. However, the weakness of the American dollar through much of the year and higher than expected gas prices combined to limit growth from the American and short haul drive markets in 2004.

The 2005 *Tourism Outlook* is predicated on relatively stable exchange rates, continued economic growth in British Columbia's key markets, a modest decline in fuel prices and no recurrence of the type of events that have negatively impacted tourism in recent years. A significant appreciation of the Canadian dollar, mutation of the virus responsible for Avian Flu to a form more easily transmissible from human to human or a major terrorist event would compromise this forecast. Tourism British Columbia will closely monitor these issues and other key factors, such as rates of economic growth and air capacity, which will influence industry performance during the year, and will update the forecast as necessary.

Market Origin	% Share Overnight Visitor Volume	2005 Overnight Visitor Volume Forecast (000s)	% Change From 2004	% Share Overnight Visitor Revenue	2005 Overnight Visitor Revenue Forecast (\$M)	% Change From 2004
North America	92.8%	21,262	2.0%	84.3%	8,067	3.6%
BC Resident	49.1%	11,252	2.0%	27.5%	2,694	3.5%
Other Canada	21.1%	4,833	2.0%	28.9%	2,837	3.5%
United States & Mexico	22.6%	5,176	2.0%	25.8%	2,536	3.6%
Total Overseas	7.2%	1,702	5.9%	17.8%	1,811	7.7%
Asia Pacific	3.8%	924	7.6%	10.1%	1,046	9.1%
Europe	2.7%	641	4.1%	6.9%	691	5.8%
Other Overseas	0.6%	136	3.0%	0.7%	74	4.5%
Total International	29.8%	6,878	3.0%	43.6%	4,347	5.3%
Total Non BC Resident	50.9%	11,711	2.6%	72.5%	7,184	4.6%
Total	100.0%	22,964	2.3%	100.0%	9,878	4.3%

- Market share based on Statistics Canada customs entries and BC Visitor Study estimates.
- Figures for 2004 in this document are estimates and will be revised when final year-end data is available.
- Readers are advised that Tourism British Columbia's forecast is subject to revision throughout the balance of the year and the contents of this report should not be construed as a recommendation on policy or actions.



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North America 2005 Outlook	2005 Overnight Visitor Volume Forecast (000s)	% Change From 2004	2005 Overnight Visitor Revenue Forecast (\$M)	% Change From 2004
Total	21,262	2.0%	8,06	3.6%
British Columbia	11,252	2.0%	2,694	3.5%
Other Canada	4,833	2.0%	2,837	3.5%
United States	5,094	2.0%	2,476	3.5%
Mexico	82	5.0%	60	6.6%

Visitation from North America is forecast to increase 2.0% in 2005 to nearly 21.3 million overnight visitors who will spend an estimated \$8.1 billion in the province. The most rapid growth is expected from Mexico due to increased travel by a growing middle class and improved air access to British Columbia. Visitor volume from the United States will increase, but will not recover to levels experienced prior to 2003.

British Columbia: Despite strong economic growth during the year Tourism British Columbia's preliminary estimate is that travel by the BC resident market grew only a moderate 1.5% in 2004. This was due to the lure of the weak American dollar, higher fuel prices which inhibited touring, and poor weather in late August and September. Tourism British Columbia is forecasting that visitor volume will increase by 2.0% during 2005, driven by pent up demand from the last few years, continued economic growth, an improving business environment and a small decline in fuel prices. Growth will be tempered by the weakness of the US dollar, which will result in some British Columbians vacationing in the United States rather than at home during 2005. However, the perception and/or reality of increased border security may mitigate this effect. Some segments of the British Columbia market are sensitive to fuel prices, thus high gas prices will also act to moderate growth in resident travel.

Canada: Visitation from other Canadian markets is forecast to rise a uniform 2.0% across all provinces of origin during 2005. Increased visitation from Alberta, British Columbia's largest Canadian market, will be supported by continued increases in Albertans' disposable income and further improvements in air access. WestJet plans to lower prices on short haul routes to increase load factors (the percentage of seats sold on each flight) and Jetsgo is expanding capacity on Alberta - BC routes this year. However, diversion of travel to the US because of the weak US dollar and high gas prices for this mainly rubber tire market will act to limit growth in 2005.

Increased visitation from Ontario during 2005 will also be encouraged by increases in air capacity and by modest economic growth. However, the strength of the Canadian dollar will shift some travel by Ontario residents to the United States, limiting travel to British Columbia. Current forecasts of economic growth are positive, which should increase consumer confidence and discretionary spending. However, Ontario is heavily dependent on exports to the United States and the full impact of the strength of the Canadian dollar may not have been felt yet.

The forecast for Canadian markets assumes that: 1) the Canadian economy will expand by 2.0% to 3.0% in 2005, 2) fuel prices will decline toward summer, 3) air capacity to and within British Columbia will grow, and 4) the Canadian dollar will remain in the \$0.78 - \$0.83 US range.

United States: Visitation from the United States is forecast to rise 2.0% during 2005 following a minor 0.1% increase in 2004. Despite the increase, American visitation to British Columbia in 2004 was 6.0% below that of 2002. While the United States experienced strong economic growth in 2004 the depreciation of the US dollar and real or perceived concerns about border delays prevented a rebound in visitation in 2004. However, the negative impact of the depreciation of the US dollar was not as great as it might have been because American visitors to British Columbia tend to be older, wealthier and less price sensitive than American travelers in general. With continued strong economic growth, growing business and consumer confidence and scheduled increases in air seat capacity to British Columbia during 2005 the outlook is fairly positive.

The forecast assumes that the American economy will expand by 2.5% - 3.5% during 2005, the exchange rate will remain in its current range, there will be no significant terrorist attacks in North America, and fuel prices will moderate. There is small but significant chance that the US dollar will experience a major decline during 2005. Tourism British Columbia will track events closely through the year and revise the forecast as necessary.

Asia/Pacific 2005 Outlook

	2005 Overnight Visitor Volume Forecast (000s)	% Change From 2004	2005 Overnight Visitor Revenue Forecast (\$M)	% Change From 2004
Total	924	7.6%	1,046	9.1%
Japan	290	10.0%	295	11.7%
Australia & New Zealand	177	5.0%	221	6.6%
Taiwan	82	7.0%	110	8.6%
Hong Kong	73	7.0%	85	8.6%
South Korea	119	3.0%	122	4.5%
China	86	15.0%	100	16.7%
Other Asia Pacific	98	6.1%	115	7.7%

Tourism British Columbia forecasts that overnight visitation from the Asia/Pacific region will increase 7.6%, to 924,000 visitors, generating \$1.05 billion in expenditures during 2005. This follows an estimated increase of 22.3% in visitation during 2004, as travel from Asian markets rebounded strongly from the impact of SARS. The forecast for 2005 represents a continued recovery from 2003; if the forecast is realized, visitor volume from Asia/Pacific will be 6.0% higher than in 2002. Increasing air seat capacity and good economic growth in the region during 2005 will contribute to growth in visitation. Negotiations with China to grant Canada Approved Destination Status (ADS), expanding leisure travel to Canada, will begin in 2005 but ADS will likely not be operational until 2006 or early 2007. Forecast risks for Asia/Pacific include a possible recurrence of SARS, the potential that the virus responsible for Avian Flu will mutate to allow human to human transmission and the on-going threat of terrorism.

Japan: Visitation from Japan is forecast to rise 10.0% in 2005 which, following a 33.3% increase during 2004, will return Japanese visitor volume back to the level achieved in 2002. The Japanese travel market is very sensitive to health and safety concerns and reacted even more strongly to SARS than most other markets, thus the recovery will not be complete until 2005. The Japanese economy performed surprisingly well during the first half of 2004 but has since fallen into recession; this could prove to be deleterious for long haul travel in 2005. Another concern is a decrease in air capacity from Japan during the first half of 2005, following a significant increase in 2004.

Australia: Visitation from Australia is expected to rise 5.0% during 2005, following a 14.5% increase in 2004. Growing interest in British Columbia (particularly winter and cruise products), positive economic conditions, a strengthening Australian dollar and an increase in air seat capacity are all contributing to sustained growth from this market.

Taiwan: Overnight visitor volume from Taiwan rose 52.2% in 2004 but was still 30.5% below the level achieved in 2000, due to the combined impacts of September 11th, weak economic performance during 2001 - 2003, SARS and a large drop in air seat capacity to British Columbia. However, the economy is recovering and the decline in travel to Canada has resulted in some pent up demand. A modest increase in air seat capacity will support an increase in visitation in the range of 7.0% during 2005.

South Korea: The South Korean market was much less affected by SARS than most other Asian markets, with visitation falling only 3.2% during 2003. Hence the recovery during 2004, while strong, was more modest than that of other countries in the region; visitation increased 13.6%. The economy is forecast to grow only 3.6% in 2005, low by South Korean standards, and air seat capacity is not expected to grow in 2005. Thus Tourism British Columbia is anticipating only modest 3.0% growth from this market in 2005. A major risk continues to be the negative impact that would result from increased tensions between North and South Korea.

China: Visitation from China rose 25.0% in 2004, recovering from the SARS induced 17.4% decline in 2003. Barring a recurrence of SARS or emergence of Avian Flu, visitation from China should continue the rapid growth experienced in recent years, with a forecast increase of 15.0% in 2005. Once Canada achieves ADS greater opportunities for leisure travel will arise, however negotiating and implementing both ADS and a new air bilateral between Canada and China will take time; the impact on visitation may not occur until 2006 or 2007.

Europe 2005 Outlook	2005 Overnight Visitor Volume Forecast (000s)	% Change From 2004	2005 Overnight Visitor Revenue Forecast (\$M)	% Change From 2004
Total	641	4.1%	691	5.8%
United Kingdom	306	5.0%	348	6.6%
Germany/Austria/Switzerland	133	4.6%	171	6.1%
Netherlands	41	3.0%	36	4.5%
France	27	3.0%	24	4.5%
Italy	21	3.0%	18	4.5%
Other Europe	113	2.0%	94	3.5%

Overnight visitation from Europe is forecast to rise 4.1% during 2005, with a total of 641,000 visitors generating expenditures of \$691 million in British Columbia. This follows an estimated 11.9% increase in visitation during 2004. The lagged effect of a 14.2% appreciation of the Euro (in real terms) since early 2002 and a relatively good economic performance combined to create strong growth in 2004, following little growth in 2003 was a result of the impact of the Iraq war, SARS, and other events on tourism. Relatively good economic performance and increases in air capacity will support continued growth in visitation from Europe this year.

Primary risks to this forecast include the possibility of renewed terrorism or health and safety concerns, slower than anticipated economic growth during 2005, which would dampen growth in disposable income and consumer confidence, and a possible weakening of the Euro.

United Kingdom: A forecast 5.0% increase in 2005, if reached, will result in overnight visitor volume from the UK exceeding the previous high point achieved in 2000. While September 11th, SARS and the war in Iraq appear to have had little long term psychological impact on British travelers, decreases in air seat capacity to British Columbia since 2000 have created a significant barrier to visitation. Air seat capacity has been gradually built back, with a 14.5% increase expected during the first five months of 2005. The British economy has performed well during recent years and is expected to continue to do so during 2005, which will contribute to maintaining consumer confidence and will encourage travel. The British Pound has been quite stable against the Canadian dollar since 2002. Over the same period, the Pound has appreciated against the US dollar while depreciating against the Australian and New Zealand – favouring travel to North America.

Germany: Until 2003, visitation from Germany had declined steadily since 1996 due to a combination of a weak economy, the depreciation of the Euro (and the Deutschmark before it) between 1996 and 2002 and decreases in air seat capacity. However, after falling 43.0% between 1996 and 2002, visitation from Germany grew 1.7% in 2003, despite the impact of the Iraq war and SARS. Visitation grew a further 11.2% in 2004 and is forecast to grow 5.0% in 2005. German travelers tend to be very sensitive to exchange rate fluctuations and the appreciation of the Euro since 2002, as well as increases in air seat capacity during the last two years, has contributed to this partial release of pent up demand. The German economy improved slightly during 2004 but is expected to continue the generally anemic growth of recent years in 2005, which will contribute to weak consumer confidence and will be a drag on the growth of long haul travel.

Other European Countries: Generally, the economies of other European countries are expected to perform moderately well in 2005. Visitation from countries that showed significant declines in 2003 (such as Italy and the Nordic countries) rebounded in 2004, restoring growth trends of recent years. Economic growth, combined with the continued effect of a strengthened Euro and a moderate increase in air seat capacity, should allow for growth in visitation in the range of 2.0% to 3.0%, depending on the country, in 2005.

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